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Dividend Policies in Indian Corporate Sector: A Special Focus on Information Technology and Power Industries

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ABSTRACT

The entry of foreign companies has widened the opportunity of opening new avenues for the investors. The finance managers of companies have to play a defensive role in the area of dividend payment to retain money for further investment either in business internally/ externally in order to maximize shareholders' wealth or to face any down trend in the market conditions. The dividend policy may be used as a signaling mechanism to convey information to shareholders/stakeholders on the present and future prospects of the firm and also market value per share. Dividend stability policy reduces uncertainty for investors and provides them with income.
The present article focused on how do finance managers of Indian companies adapt themselves in dividend payments and also the pattern of dividend distribution in Information Technology and Power Sectors.
The study has been conducted on selected listed companies taken from Information Technology and Power sectors in India. The study reveals that Power sector has consistent dividend policy as compared to Information Technology sector.

KEYWORDS Earnings per share, Dividend pay-out, IT Sector and Power sector

Introduction:
Corporate dividends have attracted considerable attention world-wide in recent decades as it is one of the indicators of the financial health of the company. The entry of foreign companies has widened the opportunity of opening new avenues for the investors. The finance managers of companies have to play a defensive role in the area of dividend payment to retain money for further investment either in business internally/ externally in order to maximize shareholders' wealth or to face any down trend in the market conditions. On the other hand, they have to follow an aggressive dividend policy to attract investors who have greater choices for making investment in the post-liberalisation period.

Review of literature:
Black, (1976) stated that 'dividend puzzle' still remains unsolved. Miller and Modigliani, (1961). When the capital markets are perfect, dividends are irrelevant, and that they have no influence on the share price. Firms establish their dividends in accordance with the level of current earnings as well as dividend of the previous year. Lintner (1956) pointed out that managers believe that investors prefer firms with stable dividend policies. A survey of the NYSE-listed companies by Baker et. al. (1985) support the Lintner findings, and they concluded that the major determinants of dividend payments are future earnings and past dividends. Glen et. al. (1995) find substantial differences in dividend policies of companies in developed and emerging markets. They show that dividend payments are much lower in emerging markets, and firms follow less stable dividend policies, although they do have target payout ratios. Adaoglu (2000) found that current earnings are the main determinant of dividend payments. After deregulation of distribution of profits in Turkey in 1994, when firms were given the flexibility of choosing their own dividend policy, they followed unstable dividend policies. Several studies in India support the Lintner findings and reveals that Indian managers confirm that companies maintain an uninterrupted record of dividend payments and also try to avoid abrupt changes in their dividend policies. Shleifer and Vishny, (1986), expressed that from the point of view of the corporate governance and control, dividend payments may be customised to attract large institutional investors who can effectively monitor the corporate governance. Under current Indian law, individual shareholders do not pay any tax on dividend incomes, while they are taxed for realised capital gains. Instead of the investors, companies have to pay tax on the distributed incomes. This raises the effective corporate tax rates for the dividend paying companies. The essential point is that the high taxes on individuals' dividend income may discourage the payment of dividends. Some studies revealed that, some companies are paying Bonus/ Stock dividends instead of cash dividends. However, the dividend paying behaviour of Indian firms subject to the monetary policy restrictions.

Dividend policy is the set of guidelines a company uses to decide how much of its earnings it will pay out to shareholders. Some surveys revealed that investors are not concerned with a company's dividend policy since they can sell a part of their portfolio of equities if they want cash. Several studies also revealed that the firm have target dividend pay-out ratio and changes in dividend depend on long term sustainable earnings of the company. The dividend policy may be used as a signaling mechanism to convey information to shareholders/stakeholders on the present and future prospects of the firm and also market value per share.

Dividend Models:
The residual-dividend model is based on three key pieces: an investment opportunity schedule (IOS), a target capital structure and a cost of external capital. , management must determine the equity amount needed to finance the optimal capital budget. This should be done primarily through retained earnings. The dividends are then paid out with the leftover, or residual earnings. Dividend stability policy reduces uncertainty for investors and provides them with income.

Hybrid Dividend Policy:
Under this approach, companies will have one set dividend, which is relatively a small portion of yearly income and can be easily maintained. In addition to this set dividend, companies will offer another extra dividend, only when income exceeds normal income levels.

Objectives:
1. To study, how do finance managers of adapt themselves in dividend payments in India.
2. To study the pattern of dividend distribution in Information Technology and Power Sectors.

Methodology:
The study is based on selected companies in information technology industry and power industries. Dividend payout policy

of each company in both sectors has been analysed. The study is based on secondary data. The data is taken from the financial statements of the listed companies.

Measurement of DPS and DPR:
The trend and pattern of dividend policies are analysed on the basis of dividend per share and dividend payout ratio. Final and cash dividends are considered for analysis.

Dividend per share = Total Dividend declared for the year/ Total number of Equity shares

Dividend payout Ratio: It is the proportion of earnings that the company distributes to the shareholders. It indicates the trend and patterns in dividend payment.

Dividend payout Ratio= Total Dividend declared for the year/ Profit available to Equity shareholders.

Data Analysis:
Mean and coefficient of variation are considered for the purpose of analysis of companies in both sectors.

Table-1 Information Technology Industry: Dividend Pay-Out policy

Information Technology Companies	Average Dividend payout ratio (2010-2015)	Co-efficient of variation	Type of Dividend policy	Consistency of Dividend policy
Tata Consultancy Services	45.79	0.43	Liberal dividend policy	Inconsistent dividend policy
Infosys Ltd	40.72	0.30	Liberal dividend policy	Consistent dividend policy
HCL Technologies Ltd.	30.81	0.48	Conservative Dividend policy	Inconsistent dividend policy
D-Link India Ltd.	16.60	0.39	Conservative Dividend policy	Consistent dividend policy
Mind Tree Ltd	16.60	0.56	Conservative Dividend policy	Inconsistent dividend policy
Wipro Ltd	32.84	0.12	Liberal dividend policy	Consistent dividend policy
Industry – Grand Average	30.51	0.40	50% of the sample- Liberal dividend policy	50% of the sample- Consistent dividend policy

The table-1 indicates that of the total companies only Infosys Ltd (40.72) Wipro Ltd(32.84) and Tata Consultancy Services (45.79) have adopted a liberal dividend policy as their average pay-out ratio is more than grand average of the Industry (30.51). HCL Technologies Ltd, D- Link India Ltd and Mind Tree Ltd are following conservative dividend policy as their dividend pay-out ratio is lower than that industry grand average.

The Co-efficient of variation of Information Technologies Industry is 0.40. Infosys Ltd (0.30), D- Link India Ltd (0.39) and Wipro Ltd (0.12) have lower coefficient of variation than that of Information Technology industry(0.40). Therefore, these three companies are following consistent dividend policy. On the other hand, Tata Consultancy Services, HCL Technologies and Mind Tree Ltd, have inconsistent dividend policy.

Table 2 Power Industry- Dividend Pay-Out policy

Power companies	Average Dividend payout Ratio (2010-15)	Co-efficient of variation	Type of Dividend Policy	Consistency of Dividend policy
Power Grid Corporation of India Ltd	29.66	0.15	Liberal dividend policy	Consistent dividend policy
NTPC Ltd	36.39	0.26	Liberal dividend policy	Consistent dividend policy
Adani Power Ltd	0.00	0.00	Conservative Dividend policy	Consistent dividend policy
Reliance Power Ltd	0.00	0.00	Conservative Dividend policy	Consistent dividend policy
NHPC Ltd	34.27	0.26	Liberal dividend policy	Consistent dividend policy
Industry-	20.06	0.92		

The table- 2 reveals that of the total five companies only Power Grid corporation of India Ltd (29.66), NTPC Ltd(36.39) and NHPC Ltd (34.27) have followed a liberal dividend policy as their average pay-out ratio is more than grand average of the Industry (20.06) and remaining 40% of companies have followed Conservative dividend policy, during the period 2010- 11 to 2014-15.

The Co-efficient of variation of the sample of Power industry is 0.92. All five companies (100%) are following consistent dividend policy as their co-efficient of variation is lower than that the industry (0.92).

Findings:
Information Technology Industry: Out of sample of six companies, 50% of them are following conservative and dividend policy consistent dividend policy.

Power Industry: Out of sample of five companies, 60% of them (three companies) are adopting is Liberal dividend policy. The other two companies, Adani Power Ltd and Reliance Power Limited have no paid any dividend (Zero Dividends). The entire power industry is adopting consistent dividend policy during the period 2010- 11 to 2014-15.

CONCLUSION:
The study has been conducted on selected listed companies taken from Information Technology and Power sectors in India. An average dividend pay-out ratio in Infor ranges from 30.81 to 45.79.Tata Consultancy Services is following liberal dividend policy by paying highest dividend of 45.79 and HCL Technologies is paying an average dividend of 30.81, which is lowest in the sample taken from this industry. These two companies are adopting inconsistent dividend policies. In case of power sector, average dividend pay-out ratio ranges from 00 to 36.39. Out of five companies in this sector, three companies are adopting liberal dividend policy and all five companies have consistent dividend policy. The study reveals that Power sector has consistent dividend policy as compared to Information Technology sector.

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